

Message Text

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PAGE 01 BOGOTA 12372 170325Z

70/44

ACTION ARA-10

INFO OCT-01 ISO-00 IGA-02 OMB-01 TRSE-00 EB-07 L-03

CIAE-00 INR-07 NSAE-00 /031 W

----- 014745

P 291735Z DEC 75

FM AMEMBASSY BOGOTA

TO SECSTATE WASHDC PRIORITY 2564

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C O R R E C T E D C O P Y - P A R A 3 , S U B P A R A C , L I N E S 7 A N D 8

EO: 11652: N/A

TAGS: EAID CO

SUBJ: SPTF LOCAL CURRENCIES AND THEIR USES

REF: STATE 298655

1. WE WELCOME THE OPPORTUNITY TO PROVIDE SUGGESTIONS FOR POSSIBLE USES OF SOCIAL PROGRESS TRUST FUND REFLWS. WHILE OUR PROPOSALS ARE MADE SPECIFICALLY WITH COLOMBIA IN MIND, SOME OF THEM MAY ALSO BE APPLICABLE IN OTHER COUNTRIES.

2. IN DEVELOPING OUR PROPOSALS, WE OPERATED ON THE FOLLOWING ASSUMPTIONS: A) TO THE MAXIMUM EXTENT FEASIBLE, SPTF FUNDS SHOULD BE USED TO IMPLEMENT OR CONTINUE CERTAIN PROGRAMS DURING AND FOLLOWING THE AID PHASE-OUT IN COLOMBIA; B) TO AN IMPORTANT EXTENT, FUNDS SHOULD BE MADE AVAILABLE FOR GOC INITIATIVES DESIGNED TO BENEFIT THE POOREST OF THE POOR, BOTH WITHIN COLOMBIA AND IN NEIGHBORING COUNTRIES; C) EFFORTS SHOULD BE MADE TO REDUCE U.S. DOLLAR EXPENDITURES IN ASSOCIATION WITH LOANS STILL TO BE SIGNED; D) WE SHOULD NOT REJECT OUT OF HAND THE POSSIBILITY OF USING SOME OF THE FUNDS FOR U.S. IN-COUNTRY ADMINISTRATIVE EXPENSES; E) THOSE FUNDS PROVIDED TO THE GOC SHOULD BE ON A GRANT BASIS IN ORDER TO MINIMIZE THE LONG-TERM ADMINISTRATIVE PROBLEMS (AND EXPENSES) ASSOCIATED WITH CREATING A BUREAUCRACY TO OVERSEE CONSTANT REFLWS AND RELENDING WHICH, THEORETICALLY, COULD BE AN LIMITED OFFICIAL USE

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PAGE 02 BOGOTA 12372 170325Z

INFINITE PROCESS; AND F) FUNDS AVAILABLE NOW SHOULD BE PLACED IN

INTEREST-BEARING ACCOUNTS AS A HEDGE AGAINST FURTHER INFLATION AND DEVALUATION.

3. WITH THESE ASSUMPTIONS IN MIND, THE FOLLOWING ARE OUR PROPOSALS, BY BROAD CATEGORIES, FOR USES OF THE SPTF PESOS:

A. CONTINUATION OF CERTAIN PROGRAMS. THE PHASE-OUT OF AID IN COLOMBIA, COULD LEAD TO A VACUUM IN CERTAIN IMPORTANT AREAS OF COLOMBIAN CONTACT WITH THE U.S., ESPECIALLY INVOLVING THE TRANSFER OF TECHNOLOGY, TECHNICAL ASSISTANCE AND PARTICIPANT TRAINING. WE BELIEVE THAT THE IMPACT OF THIS GAP OR VACUUM COULD BE MINIMIZED, IF UP TO 50 PERCENT OF THE SPTF PESOS WERE MADE AVAILABLE, ON A GRANT BASIS TO 1) PLANEACION OR THE NATIONAL DEVELOPMENT FUND (FONADE) TO MEET THE LOCAL COSTS OF COUNTRY-FINANCED TECHNICAL ASSISTANCE PROGRAMS, (THEREBY MAKING U.S. TECHNICAL ASSISTANCE AT LEAST COMPETITIVE WITH OTHER SOURCES), TRANSPORTATION AND OTHER LOCAL COSTS FOR PARTICIPANT TRAINING IN THE U.S.; 2) THE FULBRIGHT COMMISSION, TO HELP FINANCE THE COSTS OF RESEARCH IN COLOMBIAN BY U.S. SCHOLARS AND SCIENTISTS, 3) THE 10 BINATIONAL CENTERS TO STRENGTHEN THEIR PROGRAMS OF ENGLISH TRAINING, CULTURAL EVENTS AND SEMINARS ON TOPICS OF CURRENT INTEREST, AND 4) BOOK PURCHASES IN LOCAL CURRENCIES WHICH WOULD EXTEND THE RTAC PROGRAM, NOW ENTERING A PHASE-OUT PERIOD.

B. GOC INITIATIVES IN COLOMBIA. UP TO 20 PERCENT OF THE FUNDS USEFULLY COULD BE GRANTED TO ASSIST THE GOC IN ITS EFFORTS TO PROVIDE BASIC SERVICES TO THE POOREST OF THE POOR, PEOPLE WHO ARE AT THE END OF THE LINE, PRIMARILY IN RURAL AREAS. PROJECTS WHICH THE GOC IS PURSUING, AND IN WHICH AID LIKELY WOULD HAVE BECOME INVOLVED, INCLUDE RURAL HEALTH POSTS, RURAL EDUCATION, AND PROGRAMS FOR CAMPESINO WOMEN. SOME FUNDS MIGHT ALSO BE DEVOTED TO FAMILY PLANNING. GRANTS COULD BE ON A MATCHING BASIS OR AS A STIPULATED PERCENTAGE OF GOC EXPENDITURES.

C. GOC INITIATIVES OUTSIDE OF COLOMBIA. ONE OF THE GOC'S REASONS FOR PHASING OUT THE AID PROGRAM IS THAT OTHER LESSER DEVELOPED COUNTRIES HAVE A GREATER NEED FOR CONCESSIONAL ASSISTANCE. COLOMBIA ALREADY HAS ASSUMED A MINOR ROLE AS A LENDER WITH CONTRIBUTIONS TO THE CARIBBEAN DEVELOPMENT BANK AND ASSISTANCE TO BOLIVIA. THE GOC MIGHT BE WILLING TO EXPAND ITS ASSISTANCE PRO-

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PAGE 03 BOGOTA 12372 170325Z

GRAMS IF WE WERE TO PROVIDE AN INCENTIVE FOR DOING SO, BY USING SPTF PESOS TO COVER UP TO 40 PERCENT OF THE INITIAL COSTS OF THE PROGRAM, WITH OUR INPUT LIMITED TO A MAXIMUM OF 10 PERCENT OF THE SPTF PESOS AVAILABLE.

D. REDUCTION IN U.S. DOLLAR EXPENDITURES. MONEY CURRENTLY IN THE PIPELINE AND LOANS TO BE SIGNED OVER THE NEXT NINE MONTHS AMOUNT TO AN ESTIMATED 40-45 MISSION DOLLARS. NEW LOANS ALONE

WILL AMOUNT TO APPROXIMATELY 19 MILLION DOLLARS, MUCH OF WHICH WILL BE USED FOR LOCAL CURRENCY FINANCING. WE SUGGEST THAT 15-20 PERCENT OF THE SPTF ACCUMULATIONS COULD BE USED IN LIEU OF AID DOLLAR PURCHASES OF LOCAL CURRENCY WITH A POTENTIAL SAVINGS TO THE TREASURY OF OVER 3.5 MILLION DOLLARS. ALTHOUGH COLOMBIA WOULD HAVE TO REQUEST SPTF PESOS DIRECTLY FROM THE IDB, THIS SHOULD NOT PRESENT A PROBLEM, PARTICULARLY IF WE CAN ARRANGE TO HAVE THE FUNDS RELEASED ON A GRANT BASIS.

E. U.S. GOVERNMENT USE OF FUNDS. WE BELIEVE THAT U.S. GOVERNMENT USE OF THE SPTF PESOS SHOULD CONTINUE TO BE CONSIDERED AMONG THE ALTERNATIVES. OUR USES COULD BE EITHER FOR GENERAL ADMINISTRATIVE EXPENSES OR, PERHAPS BETTER, TIED TO SPECIFIC IN-COUNTRY PROGRAMS SUCH AS THE JOINT EFFORT AGAINST NARCOTICS TRAFFIC. WHICHEVER THE CASE, WE BELIEVE THAT ANY NEGATIVE REACTION HERE TO OUR "TAKING BACK" THE FUNDS WOULD BE SOFTENED CONSIDERABLY IF THE U.S. USES ALTERNATIVE WERE PART OF AN OVERALL PACKAGE INCLUDING PROPOSALS A THROUGH D. UP TO 10 PERCENT OF THE SPTF ACCUMULATIONS COULD BE USED TO COVER U.S. GOVERNMENT ADMINISTRATIVE EXPENDITURES.

4. WE SUGGEST THAT EFFORTS BE MADE TO PLACE CURRENT AND FUTURE SPTF REPAYMENTS IN INTEREST BEARING ACCOUNTS (IN COLOMBIA) IN ORDER TO OFFSET TO THE EXTENT POSSIBLE THE EFFECTS OF INFLATION AND DEVALUATION.

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Message Attributes

Automatic Decaptoning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INSTRUCTIONS, POLICIES, FUND ALLOTMENT, FOREIGN ASSISTANCE, TRUST FUNDS, PROPOSALS (BID)
Control Number: n/a
Copy: SINGLE
Draft Date: 29 DEC 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975BOGOTA12372
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750449-0030
From: BOGOTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t1975129/aaaaahil.tel
Line Count: 141
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 STATE 298655, 76 STATE 298655
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 08 SEP 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <08 SEP 2003 by KelleyW0>; APPROVED <19 NOV 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SPTF LOCAL CURRENCIES AND THEIR USES
TAGS: EAID, CO, US, SPTF
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006